

Message Text

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INFO OCT-01 ISO-00 SSO-00 NSCE-00 USIE-00 INRE-00 CIAE-00

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FM AMEMBASSY CAIRO

TO AMEMBASSY KINSHASA IMMEDIATE

SECSTATE WASHDC 2493

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KINSHASA FOR DEPUTY SECRETARY ROBINSON WITH
SECRETARY'S PARTY

E.O. 11652: N/A

TAGS: ECON, EGEN, EG

SUBJECT: INTERVIEW WITH MINISTER SHAFEI

1. FOLLOWING ARE HIGHLIGHTS OF LENGTHY INTERVIEW WITH MINISTER
OF ECONOMY SHAFEI WHICH APPEARED IN DAILY AL-GUMHURIYYA
APRIL 27. BELIEVE DEPUTY SECRETARY ROBINSON WILL BE INTERESTED
IN HAVING INFORMATION PRIOR TO MEETINGS WITH SHAFEI.

2. SHAFEI DESCRIBED CONDITION OF EGYPTIAN ECONOMY AS HAVING
SUFFERED FROM 20 YEARS OF MISTAKES AND WRONG ECONOMIC
POLICIES. IT IS HIS JOB THEREFORE TO REBUILD ENTIRE ECONOMIC
STRUCTURE OF EGYPT. IN DOING SO HE HAS DEVELOPED SHORT-TERM,
MEDIUM-TERM, AND LONG-TERM POLICIES.

A. IN SHORT-TERM, SHAFEI SAID AIMS ARE TO COVER DEFICIT IN
BALANCE OF PAYMENTS AND CONTROL INFLATION. HE DESCRIBED BALANCE
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OF PAYMENTS DEFICIT IN 1975 AS 800 MILLION POUNDS. EGYPT

MUST COVER THIS DEFICIT IN ORDER TO MEET ITS BASIC REQUIREMENTS. EGYPT'S POLICY IS TO TAKE QUICK MEASURES TO GET INTERNATIONAL ASSISTANCE. PRESIDENT SADAT IS WORKING ON THIS WITH OTHER ARAB STATES AND INTERNATIONAL ORGANIZATIONS. CURRENT PLAN IS THAT BY 1980 DEFICIT WILL BE REDUCED TO 600 MILLION POUNDS, REPRESENTING "VALUE OF WHAT EGYPT NEEDS IN FOREIGN INVESTMENT TO COMPLETE MEDIUM TERM INVESTMENT PLAN." REGARDING INFLATION, SHAFEI SAID GENERAL INTERNATIONAL INFLATION WHICH CAUSING RISE IN PRICES OF EGYPT'S IMPORTED FOOD IS FACTOR. OTHER FACTOR IS INCREASE IN INTERNAL DEMAND WHICH IS NOT MET BY INCREASES IN LOCALLY PRODUCED SUPPLIES. HENCE, NECESSITY FOR AN AUSTERITY PROGRAM, WHICH SHAFEI DESCRIBED AS AIMED AT DECREASING DEMAND, THEREBY REDUCING INFLATIONARY PRESSURE. AUSTERITY, ACCORDING TO SHAFEI DOES NOT MEAN ECONOMIC CONTRACTION: IT MEANS POSTPONING SOME EXPENDITURES FOR SHORT PERIOD. FOR ITS PART, SHAFEI SAID, GOVERNMENT WOULD REDUCE SUBSIDIES BY 100 MILLION POUNDS ON GOODS WHICH ARE PURCHASED BY UPPER CLASS. IN ADDITION, MINISTER OF FINANCE HAS ALREADY IMPLEMENTED OTHER PROCEDURES WHICH WILL SAVE A TOTAL OF LE 200 MILLION IN BUDGET, REPRESENTING DECREASE IN DEMAND BY GOVERNMENT FOR AVAILABLE GOODS AND SERVICES. HE WENT ON TO ASSURE THAT PRICES OF NECESSARY COMMODITIES ESPECIALLY FOR THE POOR WILL BE FIXED. RATION CARDS WILL BE DISTRIBUTED SO THAT EQUITABLE DISTRIBUTION OF GOODS CAN TAKE PLACE. SHAFEI SAID THAT AS PART OF AUSTERITY PROGRAM, CERTAIN CLASSES OF POPULATION WOULD HAVE TO HOLD DOWN THEIR DEMANDS FOR WAGE INCREASES. IN SHORT-TERM, GOVERNMENT AIMS AT FIXING PRICES AND PROVIDING NECESSARY COMMODITIES FOR PUBLIC.

B. IN MEDIUM-TERM, SHAFEI SAID FIVE-YEAR PLAN HAS BEEN APPROVED BY COUNCIL OF MINISTERS. THREE MAJOR PRIORITIES HAVE BEEN SET.

1. CONTINUING PROJECTS WHICH HAVE ALREADY BEEN STARTED.
2. REJUVENATING OLD PROJECTS TO RAISE THEIR CAPACITY TO MAXIMUM LEVELS.
3. REJUVENATION AND EXPANSION OF PUBLIC UTILITIES, TELEPHONES, AND TRANSPORTATION. THESE ARE BASIS FOR FURTHER DEVELOPMENT.

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PRIORITY WILL BE GIVEN TO PROJECTS FINANCED BY FOREIGN CAPITAL. PLAN ALSO HAS SOCIAL AIMS, THAT IS, TO RAISE STANDARD OF LIVING AND ELIMINATE ILLEGAL GAINS. ANY COMMODITY WHICH MIGHT BE EXPLOITED FOR ILLEGAL GAINS WILL IMMEDIATELY BE TAKEN OVER BY GOVERNMENT AND RATIONED.

C. IN LONG TERM (UP TO YEAR 2000), SHAFEI SAID EGYPT MUST LOOK TO EXPANSION OUTSIDE NILE VALLEY. HE DESCRIBED

LONG TERM PICTURE AS VERY OPTIMISTIC BECAUSE OF PROSPECTS OF INCREASED REVENUES FROM PETROLEUM AND SUEZ CANAL. HE ESTIMATED GOVERNMENT REVENUES FROM PETROLEUM WILL REACH 1.2 BILLION DOLLARS BY 1980 AND FROM SUEZ CANAL WILL REACH 500 MILLION DOLLARS. AFTER EXPANSION PROGRAM THIS WILL BE MAJOR BASIS ON WHICH LONG-TERM PLANNING CAN GO FORWARD.

3. TURNING TO RECOMMENDATIONS MADE BY IMF AND IBRD SHAFEI SAID SUGGESTIONS ARE CLEAR, THAT EGYPT FOLLOWING THIS ADVICE NOT BECAUSE OF ANY FEAR BUT BECAUSE ADVICE COINCIDES WITH EGYPT'S NEEDS. IMF/IBRD HAVE THREE DIRECTIVES:
A. ESTABLISH TWO PRICES FOR CURRENCY
B. REDUCE GOVERNMENT EXPENDITURES
C. REDUCE SUBSIDIES.

REGARDING CURRENCY, THERE WILL BE TWO PRICES. CURRENT OFFICIAL RATE WILL BE USED TO BUY NECESSARY MATERIALS FOR GOVERNMENT AND PEOPLE INCLUDING FOOD, CLOTHING, MEDICINE AND FERTILIZERS. SECOND RATE WILL BE COMMERCIAL MARKET RATE. IT WILL BE UNLIKE PARALLEL MARKET RATE BECAUSE PRICE WILL NOT BE BASED ON VALUE ADDED TO OFFICIAL RATE BUT WILL BE BASED ON SUPPLY AND DEMAND. RE GOVERNMENT EXPENDITURES, IMF AND IBRD HAVE SAID THAT EXPENSES IN GOVERNMENT BUDGET ARE BIGGER THAN NECESSARY AND INCLUDES PUBLIC RELATIONS, PURCHASES SUCH AS FURNITURE AND OFFICE SPACE. ANY COUNTRY CAN FOREGO FOR A PERIOD OF FEW YEARS SUCH EXPENDITURES WITHOUT ADVERSE CONSEQUENCES. HENCE REDUCTION OF 200 MILLION POUNDS IN GOVERNMENT EXPENDITURES WILL BE MADE.

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4. REGARDING SUBSIDIES, SHAFEI SAID IT IS WELL KNOWN IMF/IBRD IDEAS ON REFORM IN EGYPTIAN ECONOMY CALL FOR GOVERNMENT TO STOP INTERFERING IN SELLING PRICES FOR AGRICULTURAL PRODUCTS. HE SAID THAT IMF/IBRD HAS AGREED HOWEVER THAT BREAD, MILK FOR CHILDREN, COOKING OILS, AND MEDICINE HAVE TO BE SUBSIDIZED. IN THIS AREA EGYPT WILL REDUCE SUBSIDIES BY LE 100 MILLION. SHAFEI EMPHASIZED THAT ALL THESE MOVES ARE BEING TAKEN AT EGYPTIAN INITIATIVE AND NOT AS RESULT OF DIRECTIVES FROM IMF/IBRD. RELATIONS WITH IMF/IBRD ARE GOOD AND THAT AS A RESULT EGYPT COULD EXPECT \$300 MILLION ASSISTANCE.

5. SHAFEI THEN DESCRIBED OPERATION OF NEW COMMERCIAL MARKET IN WHICH HE SAID EXCHANGE RATE WOULD BE DETERMINED BY SUPPLY AND DEMAND AND WOULD BE CHANGED AS RESULT CHANGE IN BASIC CIRCUMSTANCES OF ECONOMY. FOR INSTANCE, RATE MIGHT CHANGE ONCE EVERY 3 TO 6 MONTHS. EARLIER IN SAME INTERVIEW SHAFEI CONTRADICTED THIS POINT SAYING LIMITED OFFICIAL USE

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RATE WOULD CHANGE DAILY. MINISTER SAID THAT THIS WILL ELIMINATE CURRENT "JUNGLE OF EXCHANGE RATES" IN WHICH OPEN DOOR POLICY NOW EXISTING. NEW COMMERCIAL MARKET WILL NOT ABOLISH BLACK MARKET BECAUSE RATE WILL NOT CHANGE EVERY DAY, THIS WOULD BE CHAOS. IT WILL MEAN THAT COMMERCIAL MARKET RATE WILL BE ONLY "ONE STEP BEHIND BLACK MARKET" AND DIFFERENCE WILL NOT BE GREAT. MINISTER SAID THAT EVENTUALLY ALL RESTRICTIONS ON EGYPTIAN POUND TRANSACTIONS WOULD BE REMOVED.

6. CONCERNING FOREIGN INVESTMENT IN EGYPT, SHAFEI SAID THAT EGYPT IS INTERESTED ONLY IN LARGE PROJECTS BECAUSE OF RESULTING CREATION OF SMALLER PROJECTS WHICH WILL BE NEEDED TO SUPPLY THEM, HENCE REAL EXPANSION EFFECT ON ECONOMY. HE CITED THE MICHELIN PROJECT AS AN EXAMPLE OF THIS EXPANSION EFFECT.

REGARDING OBSTACLES TO FOREIGN INVESTMENT, SHAFEI CITED LACK OF FINAL PEACE ACCORD AND ECONOMIC STAGNATION IN EUROPE AS PRINCIPAL OBSTACLES. OTHERS ARE LACK OF ESTABLISHED BASIC

UTILITIES AND BUREAUCRACY, NONE OF WHICH REPRESENT SIGNIFICANT
DRAWBACK. SHAFEI CONCLUDED BY SAYING THAT MANY PROJECTS HAVE
BEEN REJECTED BECAUSE THEY DO NOT SERVE INTERESTS OF EGYPT.
OPEN DOOR POLICY DOES NOT AIM AT DESOLVING PUBLIC SECTOR, INDEED
PUBLIC SECTOR MUST BE PROTECTED FROM PROJECTS WHICH EVADE BASIC
PRINCIPALS INCLUDING ILLEGAL GAINS. HE CITED AGAIN MICHELIN
PROJECT SAYING THAT IT WAS NOT ACCEPTED UNTIL AFTER MICHELIN
PROMISED TO EXTEND VALUABLE AID TO PUBLIC SECTOR
COMPANY, AND NOT TO COMPETE WITH IT. EILTS

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